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To: All HOME Applicants and HOME Grantees                      **Notice:**      FSP-01-15  
From: IHFA Community Development Department  
Date: September 18, 2001  
**Re: HOME Program Amendment – Supplemental HOME Funding Guidelines**

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The Housing from Shelters to Homeownership application package remains in effect until the July 2002 funding round, and the Qualified Allocation Plan remains in effect through year-end. However, the Indiana Housing Finance Authority (IHFA) Board of Directors has recently approved amendments to the supplemental funding requirements for HOME Investment Partnerships Program (HOME) funds as described below. Additionally, this notice includes HUD's policy regarding rent limit adjustments for individual developments.

#### **Supplemental Funding**

For a number of years, IHFA's policy has been that while we are open to funding multiple phases of a phased development, we do not accept requests for supplemental funding. As a part of the initial application process, applicants are required to demonstrate that:

- They have identified ample funding sources to adequately cover development costs.
- The development will be financially viable throughout its affordability period.

From time to time, however, we become aware of developments that are having difficulty securing full financing or have experienced unanticipated cost overruns. For these reasons, IHFA, in its sole discretion, will begin accepting and reviewing requests for supplemental HOME funding on a case-by-case basis.

The availability of supplemental funding is intended as a one-time award to address financial shortfalls that have arisen due to factors beyond the applicant's control such as, but not limited to, unforeseeable cost overruns due to Davis-Bacon wage rates, historic preservation requirements, or unforeseen site conditions. It is not intended as a means to alter the original scope of the development, as bridge financing to cover the costs of slower than anticipated lease-up or home sales, as a short-term solution for developments that are not otherwise financially viable, or as financing of normal construction delays due to the fault of the contractor. Further, HOME funds may not be used to refinance existing permanent debt.

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Applicants should note that all information provided in a supplemental funding request will be shared between IHFA's various allocation and compliance departmental staff. Receipt of information inconsistent with prior submittals may trigger further review and action by IHFA, and may ultimately jeopardize previously allocated funds.

#### Eligible Applicants

Requests for a supplemental HOME award will be accepted from recipients of IHFA HOME funds if the development fits one of the alternatives described below:

- Construction or rehabilitation of the HOME-funded development has not yet begun.
- Construction or rehabilitation of the HOME-funded development has begun, but has not yet been completed, and the HOME award has not been fully drawn down.
- The development was funded through the Housing from Shelters to Homeownership program, and the final HOME drawdown occurred no more than three months prior to the supplemental funding application deadline.
- The development received HOME funds in conjunction with Rental Housing Tax Credits (RHTC). The final HOME drawdown occurred no more than three months prior to the supplemental funding application deadline, and neither the Final Multi-Family Housing Finance Application nor the RHTC Cost Certification has been submitted to IHFA.

#### Application Schedule

Requests for supplemental funding will be considered during the fourth round of IHFA's Housing from Shelters to Homeownership program 2001-2002 funding cycles. Applicants must submit a Letter of Intent to request supplemental funding and a full application to the IHFA offices by 5:00 pm on the dates given below.

<b>Round 4</b>	Letter of Intent Due Date	January 2, 2002
	Application Due Date	February 1, 2002
	Award Announcements	March 28, 2002

#### Application Fee

Applicants requesting supplemental funding must pay IHFA a non-refundable application fee on or before the Letter of Intent Due Date.

<u>Applicant Type</u>	<u>Fee</u>
Not-for-profit organization	\$100
For-profit organization	\$250
Not-for-profit/for-profit joint venture	\$250



### Letter of Intent and Application Requirements

The applicant must first submit a Letter of Intent demonstrating that:

1. Additional HOME funds are necessary to fill a financing gap or to cover unanticipated cost overruns.
  - a. The applicant must indicate the amount of initial HOME funding along with the requested supplemental funding amount.
  - b. The applicant must explain how the development costs have changed since the initial application, why a financing gap now exists, and/or why construction overruns occurred.
  - c. The applicant must submit initial and current detailed construction budgets containing specific line items and identifying variances.
  - d. The applicant must identify what specific steps were initially taken to avoid the cost overruns that ultimately occurred.
2. Firm commitments have been received for all other funding sources, and the supplemental funding request is the last source needed to fill the financing gap or to cover unanticipated cost overruns.
  - a. The applicant must enclose a copy of all current funding commitments.
3. Other avenues of gap financing have been thoroughly explored.
  - a. The applicant must fully disclose all other funding sources that have been approached.
  - b. Additionally, the applicant must provide copies of all funding denial letters and indicate the reason given for denial.
4. Total development costs as given in the proposed budget are firm.
  - a. The applicant must ensure that final costs will increase no more than three percent over current estimates.
  - b. The applicant must submit firm quotes from contractors demonstrating that the amount estimated to complete work is sufficient.
5. At the time of full application, combined initial and supplemental HOME requests will meet all criteria given in the current Housing from Shelters to Homeownership application package.
  - a. These criteria include, but are not limited to: maximum HOME grant amount for the activity type, per unit subsidy limitations, developer's fee limitations, twelve month award cap, and environmental review completion requirements.
6. The entire development (including assisted and non-assisted units) will be completed within the later of the original HOME grant expiration date or twelve months from the anticipated supplemental HOME award announcement date.
  - a. The applicant must provide a detailed timeline indicating progress to date.
  - b. They must also identify target dates for achieving major milestones throughout the remainder of the grant timeframe.
7. The rate of lease-up or home sales is consistent with original estimates (if construction or rehabilitation is complete).
  - a. The applicant must provide documentation demonstrating how estimates have been met.



Only applicants that meet each of the criteria outlined above will be allowed to submit a full application for consideration. Upon receipt of the Letter of Intent and required support documentation, IHFA staff will contact the applicant to schedule a meeting to discuss the potential funding request. Staff will utilize information provided in the Letter of Intent and this meeting to determine if all criteria have been met.

The applicant will be notified as to whether or not they may submit a full application. If allowed, the applicant would complete all forms and provide additional documentation as instructed in the current Housing from Shelters to Homeownership application package.

#### Award Recommendations

Staff will carefully review each request to determine the best use of limited funding resources. Supplemental funding recommendations will be made based on a number of factors including, but not limited to: availability of HOME funds; whether the funding gap is the direct result of a shortfall beyond the control of the applicant in the form of foreseeable conditions; the rate of lease-up or home sales; timeliness of progress made to date on the development; reasonableness of the remaining development timeline; the amount of supplemental funds requested in comparison with the original award amount; and the development's score in comparison with other applications being considered during that funding round.

IHFA anticipates making supplemental HOME recommendations during funding rounds when award recommendations for new applications fall below IHFA's internal funding goals. IHFA, however, reserves the right and shall have the power to allocate funds to a development, if such intended allocation is: (1) in compliance with applicable statutes; (2) in furtherance of promoting affordable housing; and (3) determined by IHFA's Board of Directors to be in the interests of the citizens of the State of Indiana.

Assistance may be provided in the form of grants or loans. Funds will be awarded only in amounts appropriate to the scope of the identified need and will not include any soft costs. IHFA reserves the right to determine the exact amount and type of assistance needed for each development.

The supplemental funding process is intended to give qualified HOME recipients a one-time opportunity to seek additional funds. IHFA determinations regarding full application submittal and/or a HOME allocation are final. No further requests will be accepted for the same development.

#### Rent Limit Adjustments

Federal HOME regulations prohibit IHFA from making supplemental HOME awards during a HOME-funded development's affordability period, unless the award is made within one year of project completion or the supplemental funding assists a homebuyer in acquiring housing previously assisted with HOME funds [see 24 CFR 92.214(a)(7)].

HUD states at 24 CFR 92.252(g) that changes in the rent limits over time should be sufficient to maintain the financial viability of a development. However, the regulations go on to say, "HUD may adjust the HOME rent limits for a project, only if HUD finds that an adjustment is necessary to support the continued financial viability of the project and only by an amount that HUD determines is necessary to maintain continued financial viability of the project. HUD expects that this authority will be used sparingly."



If grantees find that the published rent limits are insufficient for a specific HOME-funded development, IHFA will consider a request to adjust the 40% or 30% AMI rent limits. For 60% or 50% units, we would forward the request to HUD on the grantee's behalf. In either case, the petitioner would be required to demonstrate how the increased rents would continue to be affordable for the targeted tenants.

If you have any questions about the information in this memo, please contact your IHFA Development Specialist toll-free at 1-800-872-0371.

